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CORRESPONDENCE MEMORANDUM

DATE: November 4, 2003

TO: Group Insurance Board

FROM: Audrey Koehn, Director
Disability Programs Bureau

SUBJECT: Recommended Revisions the State and Local Income Continuation Insurance (ICI) Plans

Recommendation

Staff recommends that the Group Insurance Board (Board) approve the revisions to the State and Local ICI plan contracts as set forth in the attached chart, to be effective January 1, 2004.

We also request that the Board provide us with direction on two more substantive changes (i.e. increasing the maximum benefit amount and requiring ACH for Long-term benefits).

Background and Discussion

- Proposed contract revisions

Over the past year Disability Bureau staff has worked with Ed Main, Special Assistant to the Deputy Secretary, to identify issues in the ICI program that have arisen from appeals decisions by the Board. In those cases where it appears the current ICI contract should be clarified based on the Board's decisions, we are recommending changes to harmonize the language with the Board's intent. These recommended changes are summarized in the attached chart, and staff would be happy discuss any of them if the Board needs clarification.

- Maximum benefit amount

Under the current contract, the maximum ICI benefit is set at \$4000 per month. This level provides income protection for salaries of approximately \$5300 per month. As a part of the program review and recommendations presented to the Board at the April 1998 meeting, this maximum benefit level was identified as a problem for members with higher salaries that found this level of income replacement to be inadequate. At that time, the Board approved a proposal for program redesign that included a recommendation to allow members with higher salaries to buy a higher level of protection if they were willing to pay the full cost of the excess premium.

Reviewed and approved by Tom Korpady, Division of Insurance Services.

Signature _____

Date _____

Board	Mtg Date	Item #
GIB	11/18/2003	5

Because the proposed ICI program redesign has been stalled by the failure of necessary statutory revisions, none of the recommendations have been implemented. Yet with inflation and salary progression, many more ICI members are faced with inadequate income replacement protection in the event of disability. Because of this, several agencies, including the Department of Transportation, the State Investment Board, and the University of Wisconsin have contacted the department and asked about securing a supplemental income replacement policy that would be offset against the ICI plan.

Rather than developing a separate policy, staff feels that the Board should consider increasing the current maximum benefit available under the ICI plan. The current maximum benefit level also limits the employer's contribution towards premium, so increasing that level could affect employer costs, as premium would then be due on higher salary amounts. However, the Board could determine that the cost of coverage in excess of the current limit be borne entirely by the member who opts to purchase this added protection. We have asked Jim Searcy to develop a premium table (attached) that would show the employee cost of premium for purchasing this added protection if the Board decides to offer it.

- Requiring Automated Clearing House (ACH) deposit for all long term ICI and Long Term Disability Insurance (LTDI) benefits

Each month, an average of 10 ICI and 3 LTDI benefit checks are reported as lost or stolen, and many more remain uncashed after 6 months. Several checks are reported as being delivered late, despite CORE's efforts to deposit the checks in the mail early. One way to resolve these problems is to require that benefits be distributed through the ACH process. This process deposits the benefit amounts directly in the member's bank account through electronic deposit of the funds. Currently, about 60% of the long term ICI recipients and 73% of the LTDI recipients take advantage of the ACH process. Further, the Social Security Administration requires ACH for its benefit recipients. Staff feels that the Board should consider adding a requirement that for all new long term disability benefits under both the ICI and LTDI programs, the members must use the ACH system to receive their benefits. This requirement would virtually eliminate the lost, stolen, and uncashed check problem. It would ensure that the benefits are received timely and it would reduce program administrative costs for mailing and check production.